



**NANYANG  
TECHNOLOGICAL  
UNIVERSITY**

**HE1002 Macroeconomic Principle Term Paper**

**Title: Analysis of Abenomics**

**Article:**

KAZUAKI NAGATA, “Abenomics here to stay despite Japan PM’s looming departure ,” The Japan Times, 29-Aug-2020. [Online]. Available:  
<https://www.japantimes.co.jp/news/2020/08/29/business/economy-business/abenomics-japan-shinzo-abe-economy/>. [Accessed: 18-Nov-2020].

<b>Name</b>	<b>Matriculation No.</b>	<b>Contribution</b>
Avantika Menon	U2031420E	20%
Ng Xiangqi	U2030101F	20%
Sankar Samiksha	U2021021D	20%
Seak You Juan	U2030655L	20%
Sim Yuen Xin	U2030580J	20%

School of Social Sciences

**AY2020/2021**

## Abenomics here to stay despite Japan PM's looming departure

BY KAZUAKI NAGATA  
STAFF WRITER

Aug 29, 2020

With Shinzo Abe stepping down, whoever succeeds Japan's longest-serving prime minister will be sure to face daunting economic challenges.

Markets will be keen to see if the next administration will stick to Abenomics, his namesake economic program consisting of aggressive monetary easing, flexible fiscal spending and structural reform.

While the names of potential candidates have been floated, economists say Japan's next leader will likely maintain the basic Abenomics framework. Since Abe's program was sustained by nearly eight years of political stability, it will be crucial for the next prime minister to send clear messages of continuity to avoid surprising financial markets, which are sensitive to uncertainty.

But when it comes to revving up the economy, his successor's hands will be tied as the fallout from the COVID-19 pandemic continues to inflict damage, putting the government in a completely defensive position.

"For sure, markets will be watching the continuity. I think many are assuming that things won't change a lot, but the new prime minister will need to clearly explain that," said Daiju Aoki, chief investment officer at UBS Wealth Management Japan.

They will especially be watching whether there will be changes in monetary policy. One of the pillars behind Abenomics has been aggressive monetary easing by the Bank of Japan led by Haruhiko Kuroda.

BOJ's massive purchases of long-term Japanese government bonds and exchange-traded funds is widely believed to have helped lower the yen's value, which has supported export-driven companies and boosted stock prices for roughly eight years.

Since Kuroda's term lasts until April 2023, major changes are unlikely to occur with monetary policy in the short term, Aoki said, adding it also doesn't seem reasonable to push for changes during a public health crisis.

After Abe announced his plan Friday to resign due to chronic ulcerative colitis, a bowel disease, several members of his ruling Liberal Democratic Party expressed their intention to run for the party's presidential election, which effectively decides the next prime minister.

They include former Foreign Minister Fumio Kishida, former Defense Minister Shigeru Ishiba and former Internal Affairs and Communications Minister Seiko Noda. Chief Cabinet Secretary Yoshihide Suga is also seen as a main candidate.

Abe, who doubles as LDP president, said he will remain in office until his successor is picked, which will reportedly take place on or around Sept. 15.

Aoki said whoever succeeds Abe is expected to keep the Abenomics framework in place, though some details may vary.

Whether the new administration can maintain political stability will play a large role as the world's third-biggest economy has seen a moderate recovery during Abe's nearly eight years in office.

Before Abe's second stint as prime minister began in 2012, "Japan had seen six prime ministers in six years... if Mr. Abe's successor cannot gain people's support, the political situation may go back to before Abenomics," which will be a risk for the economy, said Aoki.

In addition, economists point out that political stability under the Abe administration has strengthened Japan's diplomacy to benefit its economy by laying groundwork for trade deals and foreign-exchange policy. In terms of diplomacy, however, Abe's successor may have a tough time living up to expectations.

On top of political and policy continuity, the next leader will have to protect the economy from the COVID-19 pandemic.

"Whether Mr. Abe steps down or not, it is quite difficult to reconstruct the economy because measures to stimulate (demand) don't really work in this situation," said Shunsuke Kobayashi, chief economist at Mizuho Securities.

The pandemic will make it extremely tough for the next prime minister to draft policies that reflect a personal touch as Abe did with Abenomics during his economic campaigns.

Since the coronavirus has significantly curtailed public mobility, policies to stimulate demand aren't really viable. Also, such stimulus measures usually come with a risk of escalating infections.

The government rolled out the Go To Travel subsidy program in July with a massive ¥1.35 trillion budget to support the battered tourism industry, but the campaign has been heavily criticized for spreading the deadly virus further.

Rather than galvanizing economic activity, the government has had to focus on defensive moves to limit the damage from the pandemic by shoring up its safety net to shield jobs and prop up companies severely damaged by the virus.

Also, because the government has already deployed two record stimulus packages worth about ¥117 trillion, the incoming prime minister's fiscal options will be limited.

"The government will need to continue to deal with the pandemic and do what's necessary to contain it while limiting the economic damage ... whoever becomes the prime minister, he or she will have to face the same issue and take the same necessary steps," Kobayashi said.



([https://cdn.japantimes2xx.jp/wp-content/uploads/2020/08/np\\_file\\_34086.jpeg](https://cdn.japantimes2xx.jp/wp-content/uploads/2020/08/np_file_34086.jpeg))  
Former defense minister Shigeru Ishiba is seen in Tokyo on Friday. | KYODO



- **Trumped by ‘The Donald’?** Bolton book offers peek into Abe’s ties with U.S. leader  
(<https://www.japantimes.co.jp/news/2020/06/23/national/politics-diplomacy/us-donald-trump-john-bolton-book-shinzo-abe/>)
- **New political party set to become Japan’s largest opposition force**  
(<https://www.japantimes.co.jp/news/2020/08/19/national/new-political-party-japan-largest-opposition/>)
- **Women bear brunt of Japan’s recession as pandemic unravels Abe’s ‘Womenomics’**  
(<https://www.japantimes.co.jp/news/2020/06/12/business/economy-business/coronavirus-pandemic-womenomics/>)

[content/uploads/2020/08/np\\_file\\_34085.jpeg](#)  
Liberal Democratic Party policy chief Fumio Kishida leaves LDP headquarters in Tokyo on Friday. | KYODO

## KEYWORDS

**SHINZO ABE** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/SHINZO-ABE/](https://www.japantimes.co.jp/tag/shinzo-abe/)), **YOSHIHIDE SUGA** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/YOSHIHIDE-SUGA/](https://www.japantimes.co.jp/tag/yoshihide-suga/)), **FUMIO KISHIDA** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/FUMIO-KISHIDA/](https://www.japantimes.co.jp/tag/fumio-kishida/)), **LDP** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/LDP/](https://www.japantimes.co.jp/tag/ldp/)), **BOJ** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/BOJ/](https://www.japantimes.co.jp/tag/boj/)), **ABENOMICS** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/ABENOMICS/](https://www.japantimes.co.jp/tag/abenomics/)), **SHIGERU ISHIBA** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/SHIGERU-ISHIBA/](https://www.japantimes.co.jp/tag/shigeru-ishiba/)), **SEIKO NODA** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/SEIKO-NODA-2/](https://www.japantimes.co.jp/tag/seiko-noda-2/)), **COVID-19** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/COVID-19/](https://www.japantimes.co.jp/tag/covid-19/)), **COVID-19 IN JAPAN** ([HTTPS://WWW.JAPANTIMES.CO.JP/TAG/COVID-19-IN-JAPAN/](https://www.japantimes.co.jp/tag/covid-19-in-japan/))

## RELATED PHOTOS



([https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np\\_file\\_34085.jpeg](https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np_file_34085.jpeg)) ([https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np\\_file\\_34085.jpeg](https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np_file_34085.jpeg)) ([https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np\\_file\\_34143.jpeg](https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np_file_34143.jpeg)) ([https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np\\_file\\_34143.jpeg](https://cdn.japantimes.2xx.jp/wp-content/uploads/2020/08/np_file_34143.jpeg))

Prime Minister Shinzo Abe announces his intention to... Liberal Democratic Party policy chief Fumio Kishida... Former defense minister Shigeru Ishiba is seen in... Abe walks to the podium for a news conference in which h...

## Your news needs your support

Since the early stages of the COVID-19 crisis, The Japan Times has been providing free access to crucial news on [the impact of the novel coronavirus](https://www.japantimes.co.jp/tag/covid-19-in-japan/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support) ([https://www.japantimes.co.jp/tag/covid-19-in-japan/?utm\\_source=jto&utm\\_medium=box&utm\\_campaign=need%20your%20support](https://www.japantimes.co.jp/tag/covid-19-in-japan/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support)) as well as practical information about [how to cope with the pandemic](https://www.japantimes.co.jp/tag/stayhome/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support) ([https://www.japantimes.co.jp/tag/stayhome/?utm\\_source=jto&utm\\_medium=box&utm\\_campaign=need%20your%20support](https://www.japantimes.co.jp/tag/stayhome/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support)). Please consider [subscribing today](https://www.japantimes.co.jp/sub/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support) ([https://www.japantimes.co.jp/sub/?utm\\_source=jto&utm\\_medium=box&utm\\_campaign=need%20your%20support](https://www.japantimes.co.jp/sub/?utm_source=jto&utm_medium=box&utm_campaign=need%20your%20support)) so we can continue offering you up-to-date, in-depth news about Japan.



(<https://www.japantimes.co.jp/liveblogs/news/coronavirus-outbreak-updates/>)

Get unlimited access. The first month is on us.

**SUBSCRIBE NOW**

Abenomics is a multi-pronged economic program structure by former Japanese Prime Minister Shinzo Abe to bolster Japan's stagnant economy (Will Kenton, 2018). Abenomics consists of 3 arrows - aggressive monetary easing, flexible fiscal spending and structural reform. The first two act as demand-side policies aimed at increasing economic growth, achieving low unemployment, and maintaining price stability. Structural reform is a long-term policy aimed at increasing potential economic growth. These policies should have helped Japan reach their macroeconomic goals. However, due to the COVID-19 pandemic, Japan has been taking a 'defensive stance' on their economy. Additionally, the resignation of Prime Minister Shinzo Abe has left a huge responsibility on the newly appointed Prime Minister to keep Japan's economy stable.

The Japanese government implemented the Go-To-Travel Subsidy program in order to increase aggregate expenditure (AE). Due to COVID-19, firms in the travel industry are earning less due to low demand for travel. To widen their profit margin in the short run, firms will retrench workers to cut costs, increasing unemployment. This causes households to become pessimistic about their future income and will save more as a precautionary measure. Increased savings are greater leakages from the economy, causing a fall in AE. To cushion this adverse effect, the government provided subsidies to help firms cut production costs, allowing them to widen their profit margin without retrenching more workers. This reduces the fall in consumption, and consequently AE. According to the Japan Tourism Agency, the Government funded ¥109.9 billion in discounts which covered 25.18 million domestic overnight stays in the first two months since the roll out of the program, showing the success of this program (Kyodo, 2020).

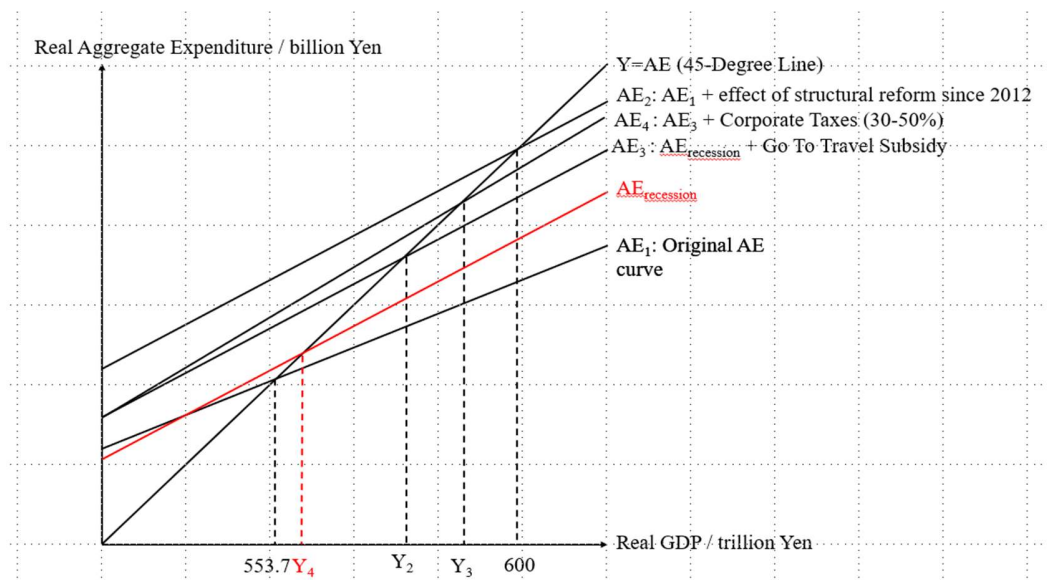
For any small-medium enterprise (SME) whose sales fell between 30-50% between February to October 2020 compared to the same period in 2019, the Japanese government provided a 50% tax exemption from fixed asset taxation (Edwin Whatley & Akihiro Kawasaki, 2020). This cut in corporate taxes allowed for a rise in post-tax revenue, incentivizing firms to continue operations. Consequently, the employees in SMEs remain employed and the firm continues to consume capital, ensuring the increase of C, I and AE.

Consumption constitutes around 55.2% of the Japanese economy ("Japan Gross Domestic Product (GDP) 1980-2020 | Analysis | Chart," 2020). In order to reduce the dependence on consumption to drive the Japanese economy, the Japanese government aims to use structural reforms (Asia-Pacific Economic Cooperation, c.2020) to raise the contributions of investment, government spending and net exports revenue to the real GDP. This helps to diversify economic sources of revenue.

To increase net exports revenue, the Japanese government has signed trade agreements to facilitate free trade and increase industry competitiveness. The 2019 Japan-EU Economic Partnership Agreement is aimed at eliminating most custom duties. The 2020 Japan-U.S is also in effect (The Government of Japan, 2020). With lower trading barriers, firms are incentivized to improve their productivity to compete in the international market. Hence, this would increase competitiveness, net export revenue and investment.

In support of international competitiveness and sustaining the SME's contribution to the economy, the government is reducing property tax, ownership support and encouraging overseas expansions of SMEs. Japan also aims to finance infrastructure projects across the world, targeting 30 billion yen by 2020 (The Government of Japan, 2020). This is aimed to increase the investment component of AE.

There are plans to further innovate and improve Japan's societal and economic structure. This is through fintech, digital government, increased research and development in healthcare, next generation infrastructure etcetera(Appendix 1). As a result, Japan's investment and future consumption would increase. Furthermore, Japan's competitiveness in the international market would rise, leading to increased future investment, net exports revenue and consumption. Since these policies have been in place since 2012 and the targets were in 2020, they would be taken into the increase in real GDP for 2020.



Graph 1: Aggregate Expenditure Model for Japan in 2020

Without the COVID-19 pandemic, real GDP should have ideally increased from 553.7 trillion yen(Japan MFA, 2020) to 600 trillion yen(The Government of Japan, 2020) with structural reforms and other government plans already in place(Appendix 1). This is shown by the upward shift of the AE schedule from  $AE_1$  to  $AE_2$ . However, due to COVID-19, the target real GDP of 600 trillion yen cannot be achieved. The low demand causes AE to shift downward to  $AE_{recession}$ . With the Go To Travel subsidy contributing 109.9 billion yen to AE, the AE schedule shifts upwards from  $AE_{recession}$  to  $AE_3$ . With corporate tax cuts of about 30-50%, the AE schedule pivots anti-clockwise to  $AE_4$ . This does not shift the curve to the ideal AE schedule of  $AE_4$ , but the policies still cushion the effect of COVID-19 and the resultant recessionary effects due to low demand. Hence, instead of the real GDP being  $Y_4$ , it will be  $Y_3$ .

However, the reality is likely to be more severe given the current instability caused by the COVID-19 situation. The marginal propensity to save(MPS) may be higher than expected as more people are losing their jobs, causing a fall in the multiplier. As such, the real GDP may be lower than  $Y_3$ . In conclusion, Japan would require a basket of policies consisting of fiscal, monetary, supply-side, and non-economic policies to help in boosting the country's economy while ensuring social safety due to the COVID-19 situation.

## **References:**

Asia-Pacific Economic Cooperation. (n.d.). Structural Reform. Retrieved November 3, 2020, from <https://www.apec.org/About-Us/About-APEC/Fact-Sheets/Structural-Reform>

Commission, E. (n.d.). Structural reforms for economic growth. Retrieved November 3, 2020, from [https://ec.europa.eu/info/business-economy-euro/growth-and-investment/structural-reforms/structural-reforms-economic-growth\\_en](https://ec.europa.eu/info/business-economy-euro/growth-and-investment/structural-reforms/structural-reforms-economic-growth_en)

Edwin Whatley, & Akihiro Kawasaki. (2020, October 16). Japan's Corporate Tax Measures in Response to Covid-19. Retrieved November 3, 2020, from <https://news.bloombergtax.com/daily-tax-report-international/japans-corporate-tax-measures-in-response-to-covid-19>

Japan Gross Domestic Product (GDP)|1980-2020|Analysis|Chart. (2020). Retrieved November 3, 2020, from <https://www.japanmacroadvisors.com/page/category/economic-indicators/gdp-and-business-activity/gdp/>

Japan, M. of F. A. of. (2020, September 8). Japanese Economy. Retrieved November 3, 2020, from <https://www.mofa.go.jp/policy/economy/japan/index.html>

Kyodo. (2020, October 21). Over 25 million overnight stays covered by Go To Travel campaign | The Japan Times. Retrieved November 3, 2020, from <https://www.japantimes.co.jp/news/2020/10/21/business/25-million-stays-japan-go-to-travel/>

The Government of Japan. (2020, June). Abenomics. Retrieved November 3, 2020, from [https://www.japan.go.jp/abenomics/\\_userdata/abenomics/pdf/2006\\_abenomics.pdf](https://www.japan.go.jp/abenomics/_userdata/abenomics/pdf/2006_abenomics.pdf)

Will Kenton. (2018, January 18). What Is Abenomics? Retrieved November 3, 2020, from <https://www.investopedia.com/terms/a/abenomics.asp>

**Appendix 1:**

[https://www.japan.go.jp/abonomics/\\_userdata/abonomics/pdf/2006\\_abonomics.pdf](https://www.japan.go.jp/abonomics/_userdata/abonomics/pdf/2006_abonomics.pdf)

Policies		Plan by 2020
Innovation in Societal Structures	Fintech/Finance	Install open API in more than 80 banks by 2020
	Mobility	Introduce drone delivery services to include urban regions by the 2020s
	Healthcare	Introduce the world's fastest approval process for regenerative medicine and grow Japan's Market for the same to 26 trillion yen by 2020
Attractive International Opportunities	Trade Agreements	Japan-EU EPA in February 2019 Japan-U.S Trade Agreement in January 2020
	Export of Quality infrastructure	Provide financing to infrastructure project of USD 200 billion by 2021 2020 Target: 30 Trillion Yen
	Tourism	2020 Target: 8 trillion yen
	Japanese Food / Agriculture	Boost export potential to 5 trillion yen by 2020